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Private Sector Division

Financial report and statements for the year ended 31 December 2004

Summary

This document presents the results achieved by the UNICEF Private Sector Division (PSD) for the year ended 31 December 2004.

The total net income from PSD activities for the year was $291.1 million for regular resources, which was $1.7 million (0.6 per cent) higher than the $289.4 million achieved in 2003. The total net income for 2004 includes $55.9 million from UNICEF cards and gift sales, $250.7 million from private sector fund-raising activities, a negative exchange rate adjustment of $1.3 million, and investment fund expenditures of $14.2 million. In addition, $218.8 million ($172.2 million in 2003) was raised from PSFR activities, which were earmarked for other resources. The net consolidated income for 2004, including both regular and other resources, amounted to $509.9 million, an increase of $48.3 million compared with the 2003 net consolidated income of $461.6 million.

* E/ICEF/2005/10.

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Financial report for the year ended 31 December 2004

A. An overview of the results

1. The total net income contribution to UNICEF regular resources from PSD activities was $291.1 million. This compares with $289.4 million in 2003, an increase of $1.7 million (0.6 per cent). The contribution consists of $55.9 million net operating income from the sale of UNICEF cards and gifts, $250.7 million net operating income from private sector fund-raising activities, Investment Fund Expenditures of $14.2 million and an exchange rate adjustment of $1.3 million.

2. Gross proceeds from UNICEF card and gift sales amounted to $161.5 million, compared with $151.5 million in 2003. The increase in gross proceeds was partly due to improved market conditions, a small increase in sales prices in some markets and the weakening of the United States dollar against the euro and the Japanese yen.

3. The net operating income from private sector fund-raising activities related to regular resources was $250.7 million in 2004, compared with $249.5 million in 2003, an increase of $1.2 million. In addition, $218.8 million were raised from private sector fund-raising activities, which were earmarked by partners for allocation to other resources, and this represents an increase of $46.6 million compared with the $172.2 million raised in 2003.

B. Financial statements for the year ended 31 December 2004

4. The three financial statements that follow are supported by the notes to the financial statements, including a summary of significant accounting policies (paras. 6-15).

Statement I

Statement of income and expenditure for the year ended 31 December 2004

(In thousands of US dollars)

	Note	31 December 2004	%	31 December 2003	%	Variance Increase/(decrease)	%
Gross proceeds — cards and gifts	3	161 518	100.0	151 469	100.0	10 049	6.6
Less: National Committees' expenditures, commissions and direct expenses at field offices	4	58 976	36.5	52 413	34.6	6 563	12.5
Net proceeds		102 542	63.5	99 056	65.4	3 486	3.5
Less: Cost of goods delivered	5	30 188	18.7	29 128	19.2	1 060	3.6
		72 354	44.8	69 928	46.2	2 426	3.5
Less: Operating costs	6	23 271	14.4	20 213	13.3	3 058	15.1
Provision for uncollectible accounts receivable	7	1 939	1.2	8 148	5.4	(6 209)	(76.2)
		47 144	29.2	41 567	27.5	5 577	13.4
Add: Other income	8	8 799	5.4	5 511	3.6	3 288	59.7
Net operating income — cards and gifts	9	55 943	34.6	47 078	31.1	8 865	18.8
Net operating income — private sector fund-raising*	10	250 671		249 517		1 154	0.5
Less: Investment Fund Expenditures	11	14 198		13 502		696	5.2
Total net operating income	**12**	**292 416**		**283 093**		**9 323**	**3.3**
Less: Exchange rate adjustment	13	1 291		(6 323)		(7 614)	(120.4)
Total net income	**14**	**291 125**		**289 416**		**1 709**	**0.6**

The accompanying notes form an integral part of this statement and should be read in conjunction with it.

* Excluding $218.8 million recognized as other resources compared with $172.2 million in 2003. This is shown in the UNICEF Financial Statements.

(*Signed*) Terry **Brown**
Comptroller

Statement II

Statement of assets and liabilities as at 31 December 2004

(In thousands of United States dollars)

	Note	*As at 31 December 2004*	*As at 31 December 2003*	*Increase/(decrease)*
ASSETS				
Accounts receivable	15	305 011	312 504	(7 493)
Less: Allowance for exchange rate fluctuation and uncollectible accounts		15 965	28 241	(12 276)
Net accounts receivable	16	289 046	284 263	4 783
Inventory	17	5 697	5 046	651
Prepaid expenses	18	43	42	1
Capital assets, net of accumulated depreciation	19	0	75	(75)
TOTAL ASSETS		**294 786**	**289 426**	**5 360**
LIABILITIES				
Bank	20	26	910	(884)
Accounts payable	21	2 642	5 798	(3 156)
UNICEF inter-office account	22	292 118	282 718	9 400
TOTAL LIABILITIES		**294 786**	**289 426**	**5 360**

The accompanying notes form an integral part of this statement and should be read in conjunction with it.

(*Signed*) Terry **Brown**
Comptroller

Statement III

Statement of the results for the year ended 31 December 2004 compared with the approved budget

(In millions of United States dollars)

	Note 23	Actual	Budget[a]	Variance (Increase/(decrease)) $	%
Income					
Gross proceeds — cards and gifts	(a)	161.5	142.0	19.5	13.7
Less: National Committees' expenditures[b]		55.0	37.0	18.0	48.6
Net proceeds		106.5	105.0	1.5	1.4
Add: Other income		8.8	8.0	0.8	10.0
Net proceeds — cards and gifts		115.3	113.0	2.3	2.0
Net proceeds — private sector fund-raising	(b)	261.0	220.0	41.0	18.6
Total net proceeds (regular resources)	**(c)**	**376.3**	**333.0**	**43.3**	**13.0**
Expenditures					
Cost of goods delivered		30.2	30.5	(0.3)	(1.0)
Marketing expenditures[b]		22.4	23.5	(1.1)	(4.7)
Support Services		17.1	18.6	(1.5)	(8.1)
Investment Fund Expenditures		14.2	16.4	(2.2)	(13.4)
Total expenditures		**83.9**	**89.0**	**(5.1)**	**(5.7)**
Total net income before adjustments		**292.4**	**244.0**	**48.4**	**19.8**
Adjustments					
Exchange rate adjustment		1.3	—	1.3	—
Total net income after adjustments — regular resources	**(d)**	**291.1**	**244.0**	**47.1**	**19.3**
Add: Other resources — private sector fund-raising		218.8	180.0	38.8	21.6
Net consolidated income — regular resources and other resources	**(e)**	**509.9**	**424.0**	**85.9**	**20.3**

[a] In accordance with Executive Board decision 2004/2, the approved budget reflected is the medium projection (column II, Table 7 of document E/ICEF/2004/AB/L.1).

[b] National Committees' expenditures exclude commissions and direct expenses at field offices. These are included in marketing expenditures.

C. Notes to the financial statements

Note 1. Objectives and activities

5. PSD, in cooperation with National Committees for UNICEF, field offices and other partners, raises funds for the programmes of UNICEF. This activity makes people aware of the work of UNICEF and gives them the opportunity to be involved in its work.

Note 2. Summary of significant accounting policies

6. The accounts are maintained in accordance with the Financial Regulations and Rules of the United Nations Children's Fund (E/ICEF/FINANCIAL RULES/1) and with the Financial Regulations and Rules of the United Nations Children's Fund, Special Supplement, Greeting Card Operation (E/ICEF/FINANCIAL RULES/1/Add.1).

7. The accounting period (fiscal year) of PSD is 1 January to 31 December, pursuant to Executive Board decision 1996/22 C.5 (E/ICEF/1996/12/Rev.1).

8. The accounts of PSD are incorporated into the UNICEF accounts as at 31 December. Consistent year-end cut-off procedures are in effect to incorporate PSD accounts into the UNICEF financial statements.

9. The accounting unit is the United States dollar. The equivalent in United States dollars of other currencies is established on the basis of the United Nations operational rates of exchange on the transaction date.

10. Gross proceeds from the sale of UNICEF cards and gifts are accrued on the basis of the Revenue and Expenditure Reports received from sales partners shortly after the year-end. They are recorded in local currency and converted into United States dollars at the United Nations operational rates of exchange prevailing on 31 December. The accrual is adjusted in the following year upon receipt of the final Revenue and Expenditure Report. In cases where the provisional Revenue and Expenditure Report is not received from a sales partner in time for the year-end closure of accounts, gross proceeds are accrued based on deliveries to that sales partner for the year less an allowance for unsold goods.

11. Assets and liabilities in currencies other than United States dollars are valued for accounting purposes at the prevailing United Nations rates of exchange. Any variance in valuation caused by fluctuation of those rates is accounted for as income or loss and, starting from 2003, is included in the statement of income and expenditure under exchange rate adjustment. In accordance with PSD accounting policy, a provision to cover accounts receivable that are considered doubtful for collection may be established. This provision, if made, is shown as a deduction from the accounts receivable on the statement of assets and liabilities.

12. The inventory of work in process and finished goods is valued at standard cost, while raw materials are valued at moving average cost. It is PSD policy to write-down unsold cards and dated gifts at the end of the first sales campaign year and all other gifts at the end of the second sales campaign year. Gifts that have been written-down and carried forward are valued at their add-on cost. All publicity and promotion materials produced in the current campaign year, but relating to future campaign years, are shown at standard cost and are included in inventory.

13. Capital assets costing $100,000 or more are capitalized and depreciated over their estimated useful life.

14. Liabilities are accrued in the PSD accounts following recognized accounting standards, and appropriate cut-off procedures are followed consistently.

15. Income from private sector fund-raising activities and related expenses are recorded separately in the PSD accounts. The net proceeds raised by National Committees from private sector fund-raising activities for regular resources are recorded based on the provisional Revenue and Expenditure Reports submitted by the National Committees after the year-end. These are then adjusted in the following year upon receipt of the final Revenue and Expenditure Reports.

Statement I

Note 3. Gross proceeds — cards and gifts

16. Gross proceeds from UNICEF card and gift sales for 2004 amounted to $161.5 million, compared with $151.5 million in 2003, an increase of $10.0 million (6.6 per cent). The increase in gross proceeds was partly due to improved market conditions, a small increase in sales prices in some markets and the weakening of the United States dollar against the euro and the Japanese yen.

Note 4. National Committee expenditures, commissions and direct expenses at field offices

17. This item consists of the expenditures recorded by National Committees and other partners, commissions paid to consignees and direct operating expenses at UNICEF field offices. For 2004, this amounted to $59.0 million, an increase of $6.6 million (12.5 per cent) compared with 2003. Of this increase, $6.5 million is related to National Committees and $0.1 million to UNICEF field offices. A breakdown is given below:

	(In millions of United States dollars)			
			Increase (decrease)	
	2004	*2003*	*$*	*%*
National Committee expenditures/commissions	55.8	49.3	6.5	13.2
Field offices' expenses	3.2	3.1	0.1	3.2
Total	**59.0**	**52.4**	**6.6**	**12.5**

Note 5. Cost of goods delivered

18. The cost of goods delivered, freight, duties and taxes, and promotion materials amounted to $30.2 million, an increase of $1.1 million (3.6 per cent) compared with 2003. This is made up of a small decrease of $0.6 million (2.9 per cent) in the direct cost of goods, an increase of $1.0 million (37 per cent) compared with 2003 in costs associated with freight, duties and taxes due to a higher usage of air transportation,

and an increase of $0.7 million (12.1 per cent) in the costs of promotional materials. Details are presented below:

	(In millions of United States dollars)			
			Increase/(decrease)	
	2004	*2003*	*$*	*%*
Cost of goods delivered	20.0	20.6	(0.6)	(2.9)
Freight, duties and taxes	3.7	2.7	1.0	37.0
Promotion materials	6.5	5.8	0.7	12.1
Total	**30.2**	**29.1**	**1.1**	**3.6**

Note 6. Operating costs

19. Operating costs amounted to $23.3 million in 2004, an increase of $3.1 million (15.1 per cent) compared with 2003. While the costs related to card and gift sales increased by 24.0 percent compared with the previous year, operating costs of Operations and Finance increased by 13.8 per cent. The expenses are summarized below:

	(In millions of United States dollars)			
			Increase/(decrease)	
	2004	*2003*	*$*	*%*
Card and gift sales	6.2	5.0	1.2	24.0
Operations and finance	16.5	14.5	2.0	13.8
Director's office	0.6	0.7	(0.1)	(14.3)
Total	**23.3**	**20.2**	**3.1**	**15.1**

Note 7. Provision for uncollectible accounts receivable

20. The provision for 2004 amounted to $1.9 million, a decrease of $6.2 million (76.2 per cent) compared with 2003. The provision is to cover accounts receivable that may become irrecoverable. Accounts receivable deemed irrecoverable are written off.

Note 8. Other income

21. Other income is based on income reported by partners by 31 December and comprises the following:

(a) **Income from licensed products**, which includes royalties from special programmes, income from Nippon Telegraph and Telephone Corporation's Pressed Flower Telegram Programme in Japan, and income from the sale of National Committee products and other items;

(b) **Donations**, which represent contributions generated through PSD brochures/order forms;

(c) **Miscellaneous income related to financial operations**, which includes discounts on purchases, miscellaneous proceeds and refunds of unspent investment funds from National Committees.

22. Other income in 2004 amounted to $8.8 million, compared with $5.5 million in 2003. While miscellaneous income increased from $1.3 million to $3.1 million, the income from licensed products and donations increased by $0.7 million and $0.8 million, respectively. A comparison between 2004 and 2003 is summarized below:

	(In millions of United States dollars)			
			Increase/(decrease)	
	2004	*2003*	*$*	*%*
Licensed products	3.2	2.5	0.7	28.0
Donations	2.5	1.7	0.8	47.1
Miscellaneous income	3.1	1.3	1.8	138.5
Total	**8.8**	**5.5**	**3.3**	**60.0**

Note 9. Net operating income — cards and gifts

23. For the 2004 campaign, the net operating income from the sale of UNICEF cards and gifts amounted to $55.9 million, an increase of $8.8 million compared with 2003. As a percentage of gross proceeds, net operating income increased to 34.6 per cent from 31.1 per cent in 2003.

Note 10. Net operating income — private sector fund-raising

24. In 2004, total net proceeds from private sector fund-raising activities reported by partners by 31 December amounted to $261.0 million for regular resources, an increase of $2.5 million compared with 2003.

25. As presented in the following table, the net operating income from private sector fund-raising activities related to regular resources in 2004 amounted to $250.7 million compared with $249.5 million in 2003, an increase of $1.2 million (0.5 per cent). The net operating income from private sector fund-raising activities related to regular resources was net of the amount retained by the National Committees; operating expenses related to private sector fund-raising activities, including field office expenses; and research and development.

26. In addition to the net operating income from private sector fund-raising activities related to regular resources, $218.8 million were raised and earmarked to various UNICEF other resources projects. This amount is shown as a footnote to statement I in this financial report and included as income in the UNICEF financial statements.

27. Private sector fund-raising expenses for 2004 included $1.4 million for research and development to develop new methods and test fund-raising campaigns, compared with $1.5 million in 2003.

	(In millions of United States dollars)			
			Increase/(decrease)	
	2004	2003	$	%
Net proceeds	261.0	258.5	2.5	1.0
Less:				
Operating expenses	6.5	5.7	0.8	14.0
Field office expenses	2.4	1.8	0.6	33.3
Research and development	1.4	1.5	(0.1)	(6.7)
Net operating income	**250.7**	**249.5**	**1.2**	**0.5**

Note 11. Investment fund expenditures

28. To enable PSD to continue to fulfil its mandate in raising funds from the sale of cards and gift items and private sector fund-raising activities, the Executive Board approved for 2004 investment funds expenditures a budget of $16.4 million. The objective of investment funds is to increase the capacity of National Committees and UNICEF field offices to build a broader support base in raising funds from the private sector and for testing and evaluating new income-generating initiatives, with a primary focus on projects offering high rates of returns. In 2004, the total expenditure for investment funds was $14.2 million ($13.5 million in 2003).

Note 12. Total net operating income

29. The total net operating income from UNICEF card and gift sales and private sector fund-raising activities for regular resources amounted to $292.4 million, an increase of $9.3 million (3.3 per cent) compared with 2003. This represents PSD net operating income before exchange rate and prior years' adjustments.

Note 13. Exchange rate adjustment

30. The exchange rate adjustment in 2004 amounted to a loss of $1.3 million, compared with a gain of $6.3 million in 2003. Effective 2003, exchange rate variances are recorded in the financial period in which they arise.

Note 14. Total net income

31. After deducting exchange rate adjustment, the total net income from UNICEF card and gift sales and private sector fund-raising activities in 2004 was $291.1 million, an increase of $1.7 million (0.6 per cent) compared with $289.4 million in 2003.

Statement II

Note 15. Accounts receivable

32. Accounts receivable include amounts due from National Committees and other partners for revenues from UNICEF card and gift sales, private sector fund-raising activities, royalties and miscellaneous receivables. The gross accounts receivable as

at 31 December 2004 amounted to $305.0 million, a decrease of $7.5 million over the balance as at 31 December 2003.

Note 16. Net accounts receivable

33. In accordance with PSD accounting policy (see para. 11 above), a provision to cover accounts receivable that are considered doubtful for collection may be established. For 2004, the allowance for exchange rate fluctuation and provision for uncollectible accounts amounted to $16.0 million. Of this, $6.4 million is for uncollectible accounts and $9.6 million is the remaining balance of allowance for exchange rate fluctuation brought forward from the previous year. Net accounts receivable after deducting the allowance for exchange rate fluctuation and provision for uncollectible accounts of $16.0 million amounted to $289.0 million.

Note 17. Inventory

34. Inventory as at 31 December 2004 amounted to $5.7 million, an increase of $0.7 million (14 per cent) compared with the balance as at 31 December 2003. A comparison is presented below:

	(In millions of United States dollars)	
	2004	*2003*
Raw materials and work in process	2.7	2.6
Finished goods	3.0	2.4
Total	**5.7**	**5.0**

Note 18. Prepaid expenses

35. These represented payments made to suppliers for the production of PSD gifts and promotion materials for 2004 and future campaigns. Prepaid expenses as at 31 December 2004 amounted to $0.04 million, the same as the previous year.

Note 19. Capital assets, net of accumulated depreciation

36. These are stated at cost, less accumulated depreciation (see summary of capital assets as at 31 December 2004, presented below). In accordance with PSD accounting policies, capital assets costing $0.1 million or more are capitalized and depreciated over their estimated useful life. The decrease of $0.1 million in capital assets over the balance as at 31 December 2003 was due to depreciation of production machinery and leasehold improvements during the period. There was no new acquisition in 2004.

	(In millions of United States dollars)	
	2004	*2003*
Production machinery	1.1	1.1
Office equipment and leasehold improvements	1.6	1.6
Subtotal	**2.7**	**2.7**
Accumulated depreciation	(2.7)	(2.6)
Total	**0.0**	**0.1**

Note 20. Bank

37. The credit balance of $0.03 million as at 31 December 2004 comprises balances of PSD bank accounts and outstanding cheques drawn from PSD zero-balance bank accounts.

Note 21. Accounts payable

38. Total accounts payable as at 31 December 2004 amounted to $2.6 million, a decrease of $3.2 million compared with the balance as at 31 December 2003. Included in total accounts payable were liabilities to suppliers and National Committees.

Note 22. UNICEF inter-office account

39. This reflects the net result of transactions between PSD and other UNICEF offices, which, as at 31 December 2003, was $292.1 million. This amount includes monies advanced as working capital to PSD. PSD earnings for each fiscal period are transferred to UNICEF via this account.

Statement III

Note 23. Comparison of 2004 actual results with budget

40. Some major highlights of PSD performance in 2004 compared with the approved budget are as follows:

(a) Gross proceeds from UNICEF card and gift sales were $19.5 million, or 13.7 per cent more than budget;

(b) Net proceeds from private sector fund-raising activities were $41.0 million, or 18.6 per cent higher than the budgeted amount of $220.0 million;

(c) Total net proceeds from PSD-related activities (regular resources) were $43.3 million, or 13.0 per cent higher than budget;

(d) The total net income after adjustments (regular resources) was $47.1 million, or 19.3 per cent higher than the budget of $244.0 million;

(e) The net consolidated income for both regular resources and other resources was $85.9 million, or 20.3 per cent higher than the budget of $424.0 million.

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Report to the United Nations Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions

Summary

The present document reports on the steps taken in response to the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 2002-2003. The focus of this report relates to those recommendations that at the time of the previous report were either not implemented or only partially implemented.

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I. Introduction

1. As an ongoing practice, UNICEF has been submitting a report to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions (ACABQ), to advise the Assembly as to the measures that the organization takes to implement the recommendations of the United Nations Board of Auditors.

2. The present report reviews the implementation by UNICEF of the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 2002-2003.

3. The administration wishes to reiterate that, to underline the importance that UNICEF places on audit recommendations from both the United Nations Board of Auditors and its own Office of Internal Audit, UNICEF has institutionalized the procedures for the review of audit matters through the Audit Committee. The Committee, which is composed of senior staff of the organization, and includes external representation of another United Nations organization, periodically reviews matters of critical concern raised during both external and internal audits. The Audit Committee, which is chaired by the Executive Director, has instituted an appropriate follow-up mechanism whereby the responsible and accountable officials are asked to provide explanations on audit matters pertaining to their offices. UNICEF has also put in place internal monitoring mechanisms for the implementation of external audit recommendations and is working within various forums to optimize coordination with United Nations partners.

4. As noted by the General Assembly in A/54/159, dated 2 July 1999, the administration has informed the United Nations Board of Auditors that one officer, the Executive Director, is responsible for overseeing the implementation of audit recommendations. This accountability is shared by the senior staff responsible for the specific areas covered in the audit recommendations.

5. The present document is submitted to the Board of Auditors and ACABQ for their evaluation.

II. Progress report on specific steps taken to implement the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 2002-2003

Recommendation No. 23

6. The Board recommends that, in the future, UNICEF ensure that the value of payables and receivables is disclosed in full, in compliance with the United Nations system accounting standards.

Measures taken by UNICEF

7. UNICEF will ensure that payables and receivables are disclosed, in accordance with United Nations system accounting standards.

Responsible Officer: Comptroller

Recommendation No. 33

8. UNICEF stated that it would consider, in the context of the High Level Committee on Management, the Board's recommendation to disclose in the financial report items in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity, and internal control issues.

Measures taken by UNICEF

9. UNICEF will work with the United Nations and the United Nations Development Group Executive Committee to address this issue in the competent forums. Initial consultations are planned for the second quarter of 2005.

Responsible Officer: Comptroller

Recommendation No. 36

10. The Board reiterates its recommendation that UNICEF assess more accurately the amount of the accounts payable to the United Nations Joint Staff Pension Fund, in coordination with the Fund.

Measures taken by UNICEF

11. The reconciliation of accounts payable to the Pension Fund for years 2003 and 2004 has been completed. Prior years' data are being reviewed and analysed, in close coordination with the Pension Fund office.

Responsible Officer: Comptroller

Recommendation No. 44

12. The Board recommends that UNICEF, in cooperation with other United Nations organizations participating in the Medical Insurance Plan, finalize its review of (a) the funding of the plan and (b) the way income and expenditure of the plan are disclosed.

Measures taken by UNICEF

13. UNICEF is actively participating in the ongoing Inter-Agency Review of the Medical Insurance Plan. (a) The review encompasses governance, different forms of administration, design of benefits, funding of benefits, etc. (b) The outcome of this review will provide a basis for a uniform approach to reporting of income and expenditure. The review is expected to be completed in the last quarter of 2005.

Responsible Officer: Director, Division of Human Resources (DHR)

Recommendation No. 48

14. The Board reiterates its recommendation that UNICEF amend the presentation of its financial statement for cost recovery or submits a new definition of programme support expenditure to its Executive Board.

Measures taken by UNICEF

15. UNICEF management will review this recommendation further in light of the organization's programmatic and business models by the fourth quarter of 2005.

Responsible Officer: Comptroller

Recommendation No. 51

16. The Board recommends that UNICEF disclose all net contributions in its Schedule 1.

Measures taken by UNICEF

17. UNICEF will disclose all net contributions in Schedule 1 in the biennium 2004-2005 financial statements.

Responsible Officer: Comptroller

Recommendation No. 53

18. The Board reiterates its previous recommendation that UNICEF expedite the finalization of its new policy on contributions in kind.

Measures taken by UNICEF

19. The Executive Director of UNICEF issued a new Executive Directive (CF/EXD/2004-12) on 7 July 2004, setting out the policy and framework for in-kind assistance.

Responsible Officer: Comptroller

Recommendation No. 56

20. The Board recommends that UNICEF (a) promulgate its instruction on monthly reporting on Medical Insurance Plan expenditure by field offices, and (b) review the accuracy of data submitted by field offices that are used in actuarial valuation.

Measures taken by UNICEF

21. Based on the outcome of the ongoing Inter-Agency Medical Insurance Plan review (see response to Recommendation No. 44, above), an appropriate instruction to UNICEF field offices will be issued.

Responsible Officer: Director, DHR

Recommendation No. 60

22. The Board recommends that UNICEF (a) issue a new instruction on non-expendable property, (b) investigate all remaining "suspense" items, and (c) update its inventory lists.

Measures taken by UNICEF

23. (a) A new instruction on non-expendable property is being finalized and will be issued in the second quarter of 2005; (b) all remaining "suspense" items have been investigated and addressed for year-end closure; and (c) an updated inventory list at New York headquarters has been compiled.

Responsible Officer: Comptroller

Recommendation No. 63

24. The Board recommends that UNICEF comply with Financial Circular 10, regarding the role of the headquarters Property Survey Board, including in respect of the investigation of missing property.

Measures taken by UNICEF

25. Financial Circular 10 is being updated and will be issued in the second quarter of 2005. UNICEF will ensure compliance with the provisions regarding the role of the headquarters Property Survey Board.

Responsible Officer: Comptroller

Recommendation No. 66

26. The Board reiterates its recommendation that the Private Sector Division (PSD) manage more proactively its accounts receivable, by systematically planning for remittances and write-offs and by a thorough annual collectability analysis of all receivables.

Measures taken by UNICEF

27. PSD continues its rigorous monitoring and collection of accounts receivables. This is an ongoing process.

Responsible Officer: Director, PSD

Recommendation No. 72

28. The Board recommends that UNICEF (a) be more proactive in the recovery of contributions receivable, and (b) document its efforts to collect them, in compliance with Financial Circular 31.

Measures taken by UNICEF

29. In compliance with Financial Circular 31, the collection of outstanding contributions receivable is now being regularly followed up.

Responsible Officer: Comptroller

Recommendation No. 76

30. The Board recommends that UNICEF review each year the adequacy of its provision for uncollectible contributions and cover all receivables identified as in doubt.

Measures taken by UNICEF

31. UNICEF reviews its provision for uncollectible contributions annually and will ensure adequacy of the provision in relation to doubtful amounts.

Responsible Officer: Comptroller

Recommendation No. 79

32. The Board recommends that UNICEF fully comply with Financial Circular 31 for the annual approval of the recognition of income from non-governmental donors on a pledge basis.

Measures taken by UNICEF

33. UNICEF has now ensured full compliance with Financial Circular 31.

Responsible Officer: Comptroller

Recommendation No. 81

34. The Board recommends that UNICEF (a) revise PSD's special supplement to its Financial Regulations and Rules, and (b) update the Division's finance manual.

Measures taken by UNICEF

35. (a) Updates and required changes for the PSD Supplement to its Financial Regulations and Rules are currently being identified by a PSD team along the evolved and updated PSD accountabilities and business processes. These will be duly discussed and reviewed with the Division of Financial and Administrative Management (DFAM). (b) Manual updates will be done through compiling standard operating procedures for key principles and areas in Finance and Operations by the fourth quarter of 2005.

Responsible Officer: Director, PSD

Recommendation No. 90

36. The Board welcomes the development of the new joint planning documents with National Committees for UNICEF and recommends using them with all National Committees.

Measures taken by UNICEF

37. As of 31 March 2005, 20 Joint Planning Process documents or Joint Strategic Plans (JSPs) had been signed. Two JSPs are expected to be signed before mid-2005, while three others are targeted for the end of 2005.

Responsible Officer: Director, PSD

Recommendation No. 99

38. The Board recommends that UNICEF (a) further analyse the differences between planned and actual retention rates, and (b) enforce Financial Rule 9.04, according to which the sales agents may be authorized to retain up to 25 per cent, and not more, of their gross sales proceeds from Greeting Card Operation products.

Measures taken by UNICEF

39. (a) Analyses and reviews on cost structures and contribution rates are being carried out and are shared with the committees. (b) National Committees' resource mobilization objectives, established jointly through JSPs, are to maximize the Committees' contribution to UNICEF programmes. In the review of the PSD Financial Regulations and Rules, and as noted in the response to Recommendation No. 81, this issue will be revisited.

Responsible Officer: Director, PSD

Recommendation No. 105

40. The Board encourages UNICEF to place further emphasis on the 80-per-cent target in the negotiation of the joint strategic planning documents.

Measures taken by UNICEF

41. Management continues to emphasize the 80-per-cent target in relevant communications between the Geneva Regional Office for Europe, PSD, and the National Committees as part of the JSP process.

Responsible Officer: Director, PSD

Recommendation No. 109

42. The Board recommends that UNICEF share the forthcoming yearly fund-raising cost structure analysis with the National Committees and provide incentives to limit fund-raising costs.

Measures taken by UNICEF

43. Performance benchmarks are being implemented. Key indicators by revenue streams have been agreed upon with the National Committees and are included in Revenue and Expenditure Reporting. Analyses on revenues and expenditures are prepared and shared with the National Committees to maximize their net contribution to UNICEF.

Responsible Officer: Director, PSD

Recommendation No. 114

44. The Board recommends that UNICEF harmonize the accounting methods of the National Committees' fund-raising income.

Measures taken by UNICEF

45. Management is reviewing this recommendation, with the goal of completion by the second quarter of 2005.

Responsible Officer: Director, PSD

Recommendation No. 118

46. The Board recommends that UNICEF exercise full control over the use of its brand name and logo by partners and require that they use their own full name, not that of UNICEF alone, in connection with donations, whether in cash or in kind, that are not controlled by the Administration.

Measures taken by UNICEF

47. UNICEF has a formal process for the review and approval of all direct corporate partnership proposals, including those regarding use of the UNICEF brand and logo. The purpose of this approval process is to help management ensure that the identity of partners is kept distinct from that of UNICEF.

Responsible Officer: Director, PSD

Recommendation No. 123

48. The Board recommends that UNICEF continuously monitor fund-raising investments, funding progress and final reports.

Measures taken by UNICEF

49. Systematic reporting, follow-up, and measures for compliance are ongoing to closely monitor fund-raising investments and their returns. The results have been encouraging.

Responsible Officer: Director, PSD

Recommendation No. 135

50. While commending UNICEF for the implementation of its previous recommendations, the Board recommends that UNICEF continue its efforts (a) to further reduce the balance outstanding for more than nine months, and (b) to improve disbursement planning by focusing on regions and countries presenting the highest risk in cash assistance management.

Measures taken by UNICEF

51. UNICEF appreciates the Board of Auditors' commendation on the significant progress accomplished in the management of cash assistance and will continue to work towards (a) further reduction of the outstanding cash assistance to Government of more than nine months, as well as (b) improvement in the disbursement planning.

Responsible Officer: Comptroller

Recommendation No. 138

52. The Board recommends that UNICEF (a) ensure full compliance of all its decisions and instructions, such as on contracts and allowances, with the United Nations Staff Regulations and Rules, while (b) continuing to review with the United Nations Secretariat the delegation of authority to the Executive Director.

Measures taken by UNICEF

53. UNICEF has advised the United Nations Office of Legal Affairs (OLA) of the Board of Auditors' observation regarding the delegation of authority given to the Executive Director. We believe that the observations should be directed by the Board to OLA for response, as the accountability for maintaining up-to-date delegations should be the domain of the Secretariat.

54. Regarding the establishment of contracts and allowances, UNICEF uses the normative requirements, as set out in the United Nations Staff Regulations and Rules and recommendations of the International Civil Service Commission (ICSC). However, it is understood that, within this framework, the various requirements of funds, programmes, and specialized agencies need to be taken into consideration. Flexibility to adjust policies to operational needs is required and accepted. This is illustrated in the Secretary-General's reform proposals, which identify the management of human resources by the funds and programmes as an area for replication by the United Nations.

Responsible Officer: Director, Division of Human Resources (DHR)

Recommendation No. 140

55. The Board recommends that UNICEF (a) update and complete the human resources manual and (b) evaluate the cost-effectiveness of translating it into other official languages widely used in its field offices.

Measures taken by UNICEF

56. (a) Significant updates were undertaken in 2004. This, however, remains an ongoing process. The work on the new chapters related to emergencies and staff well-being will be started in 2005. (b) After a review was undertaken, it was determined that translating the manual into other official languages is not feasible, given the prohibitive cost involved.

Responsible Officer: Director, DHR

Recommendation No. 144

57. The Board recommends that UNICEF (a) clearly define the criteria applied to assess the certainty of funding resources before including them in its budget, and (b) disclose the fact that support budget documents include all estimated funding but only programme posts that are already funded.

Measures taken by UNICEF

58. UNICEF agrees with the recommendation and will revise the notes of annex III in the budget document, accordingly.

Responsible Officer: Director, DHR

Recommendation No. 148

59. The Board recommends that UNICEF minimize the number of staff members employed at post levels lower than their personal levels.

Measures taken by UNICEF

60. The need for rotation and placement of staff, in some limited cases, will result in staff members being assigned to posts that do not correspond to their personal grades. While these cases will be marginally significant in the overall realm of the exercise, these placements provide a necessary flexibility that is required by the operational imperatives of the organization.

Responsible Officer: Director, DHR

Recommendation No. 152

61. The Board recommends that UNICEF continue its efforts to expand recruitment from developing countries for international Professional posts.

Measures taken by UNICEF

62. The Organization will continue its efforts to expand recruitment from developing countries for the international Professional category, and will share information on regional recruitments with the Executive Board at its second regular session, in September 2005.

Responsible Officer: Director, DHR

Recommendation No. 157

63. The Board recommends that UNICEF ensure compliance with its budget guidelines on reporting on temporary fixed-term (TFT) staff in the country programme management plan.

Measures taken by UNICEF

64. Management issued the TFT report on 22 October 2004 and will ensure compliance with TFT-reporting budget guidelines.

Responsible Officer: Director, DHR

Recommendation No. 162

65. The Board recommends that UNICEF improve its management of staff rotation.

Measures taken by UNICEF

66. The organization has a comprehensive policy on staff rotation to meet its goals and objectives. It will strive for continued improvement within the parameters of the policy.

Responsible Officer: Director, DHR

Recommendation No. 167

67. The Board recommends that UNICEF strengthen controls over the dependency allowance.

Measures taken by UNICEF

68. Through the issuance of Administrative Instruction CF/AI/2001-003 Amend.1 on "Dependency Allowances", issued on 12 March 2003, the organization reintroduced the Dependency Status Report form, thereby continuing to make every effort to ensure that the dependency allowance is properly applied and administered with the necessary controls.

Responsible Officer: Director, DHR

Recommendation No. 170

69. The Board recommends that UNICEF further (a) clarify its policy regarding family duty stations included in the special operations approach, and (b) document and monitor decisions on special operations living allowances areas and rates.

Measures taken by UNICEF

70. The policy of UNICEF on the Special Operations Approach (SOA), as contained in CF/AI/1999-013 dated 21 December 1999, sets out clear criteria for the designation of SOA duty stations. Operational flexibility is needed to monitor developments on the ground and make well-informed decisions regarding the appropriateness of either introducing or discontinuing the scheme at a given duty station. This is done following discussion among operational agencies applying this scheme.

71. With regard to documenting decisions, the administrative instructions on SOA duty stations, which are regularly issued, describe the reasons and circumstances that lead either to the introduction or discontinuation of the scheme.

72. The rates are based on either the Daily Subsistence Allowance or the Mission Subsistence Allowance, as set out by the ICSC and the United Nations Secretariat, respectively. These are officially published.

Responsible Officer: Director, DHR

Recommendation No. 173

73. The Board notes the several instances in which UNICEF has deviated from United Nations instructions regarding staff entitlements, confirms its recommendation in paragraph 138 above and recommends that UNICEF comply with United Nations staff rule 112.2 and further liase with the United Nations Secretariat on this matter.

Measures taken by UNICEF

74. UNICEF believes that the application and administration of staff entitlements are within the broad framework of the United Nations Staff Regulations and Rules, taking into account the operational flexibility required to meet the overall goals and objectives of the organization.

Responsible Officer: Director, DHR

Recommendation No. 176

75. The Board recommends that UNICEF comply with the human resources manual instruction on the issuance of a yearly report on consultants.

Measures taken by UNICEF

76. UNICEF issued the annual report on consultants on 22 October 2004.

Responsible Officer: Director, DHR

Recommendation No. 181

77. The Board recommends that UNICEF comply with the Board's instructions by improving its monitoring of consultant contracting, expenditure and evaluation and by taking appropriate steps against cases and patterns of non-compliance with instructions.

Measures taken by UNICEF

78. Administrative Instruction CF/AI/2004-009, a revised comprehensive policy on consultants, was issued by the organization on 19 March 2004. This policy clearly sets out the requirements for the issuance of consultants' contracts. The policy, among other things, stresses that consultants should not be used to perform regular staff functions. The authority to manage consultants is delegated to Heads of Offices and Division Directors who are accountable for their areas of work. Compliance with human resources policies and procedures is built into the organization's oversight and audit mechanisms.

Responsible Officer: Director, DHR

Recommendation No. 184

79. The Board recommends that UNICEF implement without delay a database providing reliable statistics on training and introduce an appropriate training performance evaluation system.

Measures taken by UNICEF

80. Regarding the database training statistics, a request for information on (a) the numbers of staff attending courses or completing certified self-directed courses, and (b) the numbers of meetings held by the Office Learning Committee has been included in the Annual Reporting Guidelines for all offices.

81. On the evaluation of training, (a) all courses and workshops held have an in-built post-event evaluation exercise (a standard form is available to all), and (b) guidelines for both the planning and evaluation of training and learning events

and activities are posted on the Learning Web, and are accessible. All offices are encouraged to follow these guidelines.

Responsible Officer: Director, DHR

Recommendation No. 188

82. The Board reiterates its recommendation that UNICEF improve its data processing in order to efficiently support early supply planning.

Measures taken by UNICEF

83. Supply Division continues to work with the Information Technology Division (ITD) to enhance the Cognos cube to include missing information to further improve the supply planning process. The cube was updated in August 2004 but still needs further enhancements to be more effective.

Responsible Officer: Director, Supply Division

Recommendation No. 192

84. The Board recommends that UNICEF refrain from entering into agreements that would give an unfair competitive advantage to one supplier and lead to the risk of late delivery.

Measures taken by UNICEF

85. UNICEF takes note of the recommendation and will account for it in future agreements. In addressing this concern, relevant clauses have been incorporated in the new in-kind assistance (IKA) policy issued under CF/EXD/2004-12, dated 7 July 2004, in Annex A, "Assessing offers of IKA", in particular the clause: "UNICEF will accept IKA as long as in doing so it does not provide the donor with an unfair commercial advantage over its competitors." Supply Division follows the clause in assessing any IKA offer.

Responsible Officer: Director, Supply Division

Recommendation No. 199

86. The Board recommends that UNICEF further improve Programme Manager System (ProMS) controls, such as on (a) passwords, (b) user groups, (c) segregation of duties and (d) access logs.

Measures taken by UNICEF

87. Password improvements were implemented in ProMS 5.0, released in September 2004. Monitoring of user groups and segregation of duties will be addressed as part of the ProMS 6.0 release. Simplification of the document authorization table (DAT) maintenance and reorganization of system controls between the DAT and user group tables are also planned. Access logs are already provided with no limit on duration. Actions needed to address this recommendation have now been completed.

Responsible Officer: Director, ITD

Recommendation No. 202

88. The Board recommends that UNICEF (a) set realistic deadlines for its major information and communication technology projects, and (b) allocate sufficient resources for all stages, such as gap analysis.

Measures taken by UNICEF

89. Management continues to incorporate key milestones and deadlines in project charters and high-level work plans. This will be done in accordance with the guidelines defined by the existing governance mechanisms and project selection processes. In so doing, management has fully addressed this recommendation.

Responsible Officer: Director, ITD

Recommendation No. 204

90. The Board recommends that UNICEF improve the budget tracking process for all ICT in order to budget and monitor expenditure.

Measures taken by UNICEF

91. In line with the 2004-05 budget guidelines, budget controls have been implemented to optimize the tracking and monitoring of allocated funds.

Responsible Officer: Director, ITD

Recommendation No. 216

92. The Board commends UNICEF for providing impetus to inter-agency coordination and recommends that, in cooperation with other United Nations organizations, it further strengthen its coordination with various ICT boards or steering committees of the United Nations system, with a view to further benefiting from system-wide experience.

Measures taken by UNICEF

93. Management continues its efforts to strengthen coordination with various ICT boards or steering committees of the United Nations system, with a view to further benefiting system-wide experience, and will continue to do so on an ongoing basis.

Responsible Officer: Director, ITD

Recommendation No. 221

94. The Board recommends that UNICEF adopt a common methodology with the other United Nations organizations for (a) determining the total cost of ownership of ICT, (b) determining the variations in cost in different parts of the organization, (c) determining whether or not outsourcing of ICT activities may be a viable option, and (d) evaluating ICT projects, their benefits, costs and risks, based on best practices.

Measures taken by UNICEF

95. Management continues to use IT standards and existing governance processes to implement this recommendation, and will maintain this on an ongoing basis. As part of our efforts towards this end, UNICEF provided input to the inter-agency budget comparison coordinated by the International Maritime Organization on behalf of the ICT network in March 2005.

Responsible Officer: Director, ITD

Recommendation No. 224

96. The Board recommends that UNICEF continue to establish and maintain ICT standards and operational practices in line with best practices, and share them, wherever feasible, with other United Nations organizations, with a view to reducing risks and costs.

Measures taken by UNICEF

97. Management concurs with the recommendation and will continue its efforts to share the best practices of UNICEF in the context of our response to Recommendation No. 216.

Responsible Officer: Director, ITD

Recommendation No. 226

98. The Board recommends that UNICEF subject all significant IT projects to a post-implementation audit.

Measures taken by UNICEF

99. Management has taken note of the recommendation and will review its existing financial and project frameworks for the feasibility of post-implementation audit.

Responsible Officer: Director, ITD

Recommendation No. 231

100. The Board recommends that UNICEF endeavour to improve the consistency of its data standards and policies in conjunction with other United Nations entities.

Measures taken by UNICEF

101. Management concurs with the recommendation and will continue its collaboration with United Nations agencies in the relevant areas of information management standards.

Responsible Officer: Director, ITD

Recommendation No. 233

102. The Board recommends that UNICEF join other United Nations organizations in instituting ICT project peer reviews, with a view to limiting in the long term the cost of a multiplicity of solutions responding to similar needs.

Measures taken by UNICEF

103. Management has taken note of the recommendation and wishes to note that, notwithstanding the diversity of the mandates, business models, geographical distribution, and office structures among United Nations agencies, UNICEF will endeavour to continue to share the relevant ICT best practices with United Nations system organizations, as we have similarly stated in our response to Recommendation No. 224.

Responsible Officer: Director, ITD

Recommendation No. 235

104. The Board is also of the view that, given the maturity of UNICEF processes and its reliance on best practices and independent benchmarks, UNICEF could more proactively contribute to the development of ICT synergies with other entities of the United Nations system, with a view to limiting costs through sharing lessons learned, procurement and activities.

Measures taken by UNICEF

105. Management takes note of the commendation and recommendation. Management will endeavour to continue to share the best practices of UNICEF in ICT with the United Nations family.

Responsible Officer: Director, ITD

Recommendation No. 239

106. The Board recommends that UNICEF negotiate (a) a new agreement for its Innocenti Research Centre (IRC), and (b) the alignment of its planning and budget cycles with standard UNICEF cycles.

Measures taken by UNICEF

107. Action is under way for both recommendations: (a) Negotiation of the new Agreement of Cooperation with the Government of Italy has been formally initiated and will be finalized in September 2005. Modifications to the terms of the agreement will be incorporated to the extent possible, with reference to the applicable Italian law. (b) Further action for enhanced alignment of the Centre's planning and budget cycles with standard UNICEF cycles will be discussed in the next Programme and Budget Review meeting in July 2005.

Responsible Officer: Director, IRC

Recommendation No. 244

108. The Board recommends that UNICEF (a) put in place at its IRC a more competitive selection process for consultants, (b) submit all financial commitments above $20,000 to its Contracts Review Committee, and (c) pay more attention to the geographical balance of consultant recruitment.

Measures taken by UNICEF

109. Action is completed on these recommendations: (a) Management is following up on the actions described in our previous response, and a work process summary table of the competitive selection process for consultant/individual contractors has been developed. The revised process has been shared and discussed with staff during training sessions. All service contracts are monitored by the operations section, and senior management will ensure compliance. (b) The Contracts Review Committee meeting membership was reviewed and updated for 2005. All contracts above the $20,000 level are reviewed by the Committee. (c) UNICEF regional offices have been contacted to increase the pool of consultants in IRC selection processes. A P11 form is requested of all candidates as a standardized way to obtain geographical origin of the candidates. Geographical balance is considered as an element of selection process.

Responsible Officer: Director, IRC

Recommendation No. 247

110. The Board recommends that UNICEF review the IRC distribution system and current contract.

Measures taken by UNICEF

111. The review has been completed and the resulting recommendations are being implemented.

Responsible Officer: Director, IRC

Recommendation No. 249

112. The Board recommends that UNICEF (a) conclude Basic Cooperation Agreements according to the 1992 standard in all countries, (b) obtain full compliance with the Convention on the Privileges and Immunities of the United Nations, and (c) implement the Basic Cooperation Agreements or renegotiate as appropriate.

Measures taken by UNICEF

113. As stipulated in the Programme Policy and Procedures Manual (and noted by the auditors), UNICEF management will continue to stress the priority of concluding the standard Basic Cooperation Agreements in order to ensure that critical clauses, such as those covering immunities and privileges, as well as the contribution of host-country governments to supporting and facilitating programme operations, are complied with. This is an ongoing exercise.

Responsible Officer: Deputy Executive Director, Operations and Management

Recommendation No. 253

114. The Board recommends that UNICEF continue to improve (a) the timeliness of the submission of donor reports, and (b) the accountability of regional offices for quality control of donor reports.

Measures taken by UNICEF

115. Excellence in reporting performance is of critical importance to UNICEF and will be regularly followed-up with all Programme Budget Allotment (PBA) holders in the framework of the accountabilities within the organization. This is an ongoing process. The Guidelines on Thematic Reporting were communicated on 18 March 2005. The Executive Directive on reporting is targeted for completion by the third quarter of 2005.

Responsible Officer: Director, PFO

Recommendation No. 255

116. The Board recommends that UNICEF, in compliance with the announcement made to the Executive Board in 1998, update its communication manual. The administration informed the Board that it expects to issue a new communication manual in the second half of 2004.

Measures taken by UNICEF

117. The Division of Communication (DOC) has launched the electronic intranet site containing all UNICEF communication guidance, which has been made available to all UNICEF staff. Initial feedback from headquarters, country offices and National Committees has been very positive. The site will be continually updated as new guidance is developed, based on feedback received from users.

Responsible Officer: Director, DOC

Recommendation No. 259

118. The Board recommends that UNICEF (a) improve its monitoring of communication activities, and (b) use the new field office reporting system to monitor the cost and implementation of its communication strategy, including in connection with publications.

Measures taken by UNICEF

119. DOC plans to carry out an analysis of 2004 annual reports, which should be completed by end-April 2005.

Responsible Officer: Director, DOC

Recommendation No. 263

120. The Board recommends that UNICEF review its overall anti-fraud policies and tools and update its financial circular on fraud.

Measures taken by UNICEF

121. A draft document establishing procedures for reporting and addressing complaints and allegations of fraud, corruption, and misconduct involving UNICEF staff has been prepared by the Office of Internal Audit and is ready to be discussed with DHR, DFAM, and the Senior Advisor to the Executive Director.

Responsible Officer: Comptroller